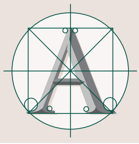


Artisan Value Fund

QUARTERLY Commentary

Investor Class: ARTLX | Advisor Class: APDLX | Institutional Class: APHLX

As of 30 September 2024

Investment Process

We seek to invest in companies that are undervalued, in solid financial condition and have attractive business economics. We believe that companies with these characteristics are less likely to experience eroding values over the long term.

Attractive Valuation

We value a business using what we believe are reasonable expectations for the long-term earnings power and capitalization rates of that business. This results in a range of values for the company that we believe would be reasonable. We generally will purchase a security if the stock price falls below or toward the lower end of that range.

Sound Financial Condition

We prefer companies with an acceptable level of debt and positive cash flow. At a minimum, we seek to avoid companies that have so much debt that management may be unable to make decisions that would be in the best interest of the companies' shareholders.

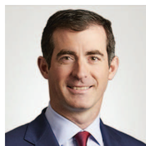
Attractive Business Economics

We favor cash-producing businesses that we believe are capable of earning acceptable returns on capital over the company's business cycle.

Team Overview

Everyone on the team functions as a generalist with respect to investment research and the entire team works together on considering potential investments.

Portfolio Management


Thomas A. Reynolds IV
Portfolio Manager

Daniel L. Kane, CFA
Portfolio Manager

Craig Inman, CFA
Portfolio Manager

Investment Results (%)

	Average Annual Total Returns						
As of 30 September 2024	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inception
Investor Class: ARTLX	**6.65**	**13.08**	**24.10**	**10.18**	**13.67**	**10.11**	**8.50**
Advisor Class: APDLX	**6.69**	**13.25**	**24.29**	**10.37**	**13.85**	**10.28**	**8.58**
Institutional Class: APHLX	**6.69**	**13.24**	**24.33**	**10.39**	**13.90**	**10.35**	**8.67**
Russell 1000® Value Index	9.43	16.68	27.76	9.03	10.69	9.23	7.90
Russell 1000® Index	6.08	21.18	35.68	10.83	15.64	13.10	10.46

Source: Artisan Partners/Russell. Returns for periods less than one year are not annualized. Class inception: Investor (27 March 2006); Advisor (1 April 2015); Institutional (26 July 2011). For the period prior to inception, each of Advisor Class and Institutional Class's performance is the Investor Class's return for that period ("Linked Performance"). Linked Performance has not been restated to reflect expenses of the Advisor or Institutional Class and each share's respective returns during that period would be different if such expenses were reflected.

Expense Ratios (% Gross/Net)	ARTLX	APDLX	APHLX
Semi-Annual Report 31 Mar 2024[1]	1.07/0.98[2,3]	0.96/0.88[2,3]	0.83/—
Prospectus 30 Sep 2023[2]	1.10/1.07[3,4]	0.97/0.88[3]	0.85/—

[1]Unaudited, annualized for the six-month period. [2]See prospectus for further details. [3]Net expenses reflect a contractual expense limitation agreement in effect through 31 Jan 2025. [4]There was no expense limit prior to July 1, 2023. Effective July 1, 2023, expense limit was 0.98%.

Past performance does not guarantee and is not a reliable indicator of future results. Investment returns and principal values will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. Call 800.344.1770 for current to most recent month-end performance.

Investing Environment

US equities overcame brief spells of volatility to reach new all-time highs in Q3 as underlying earnings growth remained positive, US inflation continued to decelerate and incoming economic data supported soft-landing hopes. With inflation approaching its 2% target, the Federal Reserve began easing monetary policy, cutting its target rate by 50bps. In contrast to the first half of the year, which was dominated by large-cap technology stocks and the artificial intelligence trade, equity returns broadened out in Q3 amid a big rotation to interest-rate sensitive stocks. The Russell 1000® Value Index gained 9.43%, led by utilities and real estate stocks. Energy was the only sector that was down in Q3 as WTI oil fell from the $80s into the $60s.

Value had its best quarter relative to growth since Q4 2022 as the Russell 1000® Value Index outperformed the Russell 1000® Growth Index by over 600bps. However, given the huge gains by large-cap growth stocks in recent years, the Russell 1000® Growth Index has still outperformed the Russell 1000® Value Index by more than 900bps and 700bps annualized over the past 5 and 10 years, respectively. As growth stocks' market values have risen disproportionately relative to their earnings growth, their valuations have risen higher both on an absolute basis and relative to those of value stocks. Today, the growth index trades for about 32X FY1 earnings compared to 18X for the value index—a 14-point valuation spread. This compares to average and median valuation spreads of 8 and 6 multiple points (based on our data going back to 1997).

Performance Discussion

Our portfolio generated a solid absolute return but trailed the Russell 1000® Value Index. The rotation to bond proxies was a performance headwind given our lack of utilities and real estate holdings. Additionally, we had a few individual detractors weigh on our Q3 return. Our biggest decliners were Dollar General, Humana and Samsung Electronics.

Shares of discount retailer Dollar General sold off after the company reported a weak set of results that included tepid same-store sales results, a decline in gross margins and a drop in earnings per share, causing the company to slash its full-year sales and earnings outlook. A combination of execution issues, competitive pressures and an increasingly constrained lower income consumer are hurting sales growth. Additionally, margins are under pressure due to labor costs, shrink and markdowns. Some of the issues are self-inflicted. After years of focusing on store growth to drive the top line, store standards have suffered. Addressing store standards is needed to turn around flagging traffic, comps and customer satisfaction. Additionally, its strategy to grow the share of sales that come from nonconsumables hasn't achieved its objectives as these products have tended to sit on store shelves, leading to more promotions and inventory write-downs. Turning the business around will take time, but the stock price is now back to 2016 levels, and multiple valuation metrics are the cheapest in the stock's history.

Humana is a leading US managed health care company that we added to the portfolio earlier this year. After a few years of benign costs, mainly related to lower utilization trends during COVID in which the managed care industry enjoyed expanding profits and strong growth, utilization has ticked higher, driving up costs. Due to the timing of annual negotiated repricing for Medicare Advantage (MA) plans, Humana is unable to adjust pricing higher until the following year. In the interim, this is problematic for earnings. Naturally, this has weighed on Humana's stock price. In the latest quarter, revenues were up 10%, but profits were restrained due to higher utilization. This was mostly anticipated, but given the limited visibility into pricing for the upcoming year, investors remain on edge. Further negative news for Humana came in early October when the company announced that preliminary data provided by the Centers for Medicare & Medicaid Services (CMS) showed that the percentage of Humana's members enrolled in higher quality MA plans had fallen, which would impact government bonus payments. Humana is working with CMS to appeal the process as the company believes there were potential errors; however, this introduces risk to 2026 and 2027 margin targets. The stock was down about 15% in Q3 and fell another 8% through mid-October after the news regarding the CMS ratings. As opportunistic value investors, we are taking advantage of further weakness to add to our position at cheap prices. Like the market, we appreciate Humana's current challenges, but we believe the longer term drivers for the business remain intact.

Samsung Electronics is a diversified technology company, manufacturing a wide array of consumer and industrial electronic equipment, such as semiconductors, mobile devices, PCs, TVs and home appliances. Shares have pulled back on concerns about the DRAM chip cycle due to muted smartphone and PC demand. We feel over the long term, the DRAM market is structurally sound and data growth is a massive secular tailwind that should smooth out cycles, making Samsung increasingly less cyclical over time. There is also growing skepticism about Samsung's technology edge in memory. Samsung has had a few development setbacks in HBM (high-bandwidth memory) chips that are used in graphics processing units (GPUs) for artificial intelligence. As a result, Samsung's stock hasn't participated in this year's AI chip stock rally. However, there are reports that Samsung's next-generation HBM chip HBM3E is nearing approval, with deliveries beginning as soon as Q4 2024. Currently, Samsung sells at just 11X earnings, making it one of the cheapest large-cap technology stocks. We believe the company remains well positioned in memory given its leading market position, substantial free cash flow and large net-cash position.

Our top contributor was PayPal Holdings, a financial technology company that enables digital and mobile payments between consumers and merchants. PayPal was a recent new purchase added to the portfolio in Q2. Better growth in payment volumes and transaction margins during PayPal's latest quarter offered evidence that the new management team's efforts are gaining traction. Notably, payment service provider Braintree returned to providing

positive transaction margin, branded checkout contributed strongly to payment volume growth, and monetization at Venmo showed progress. Post-COVID, PayPal's shares had been pressured by intensifying competition, the threat of which was seemingly exacerbated by prior management missteps. Shares traded for under 14X next year's expected earnings at the time of our initial purchase. This was an attractive entry point to purchase a stake in a business with above-average—and improving—unit economics, a strong balance sheet and consistent free cash flow. Competent new management is already leaning on the company's strong financial position to maximize the value of these assets.

Other top performers were PNC Financial Services and Kerry Group. PNC and other bank stocks rallied as cooling inflation data solidified expectations that the Federal Reserve would join other central banks in easing monetary policy. Interest rate cuts are seen boosting net interest margins by reducing bank borrowing costs while also fostering better loan growth. PNC's management noted that the bank's net interest income has moved past its trough, increasing for the first time in six quarters. PNC, a stock we purchased in Q1 2023 when bank stocks were broadly out of favor given industry-wide headwinds related to higher rates, has been one of our top contributors to returns over the past year. It is well managed and has a solid balance sheet, and as one of the largest banks in the US, we believe it has the necessary scale to continually reinvest in the required technology and risk management systems needed to compete and attract deposits.

Kerry is the largest food and beverage ingredients company globally. Kerry is primarily a B2B (business-to-business) company that helps consumer goods and foodservice companies go from an idea to a product rapidly, with taste, nutrition and formulation assistance onsite or at Kerry's innovation centers. We added Kerry to the portfolio in Q4 2023, taking advantage of its bargain price resulting from growth disappointments and GLP-1 weight-loss drug fears. In Q3, the stock benefited from a combination of better operating results, including positive volume trends and margin growth, fading concerns about GLP-1s and a rotation from technology stocks to defensive areas of the market, like consumer staples. Underpinning our investment case are Kerry's strong free cash flow generation and disciplined capital allocation focused on returning excess capital via dividends and buybacks.

Portfolio Activity

We made no new purchases in Q3. Instead, our purchase activity was focused on adding to a few of our existing names that remain cheap, such as Dollar General and United Parcel Service (UPS). When we initiated our position in UPS in late 2023, shares were under pressure due to concerns about its new labor contract diverting volumes and driving up costs, as well as the continued normalization of volumes following COVID-related gains. We welcomed the market's short-term focus as it provided us an opportunity to purchase UPS at an undemanding valuation of less than 11X our view of normalized earnings. UPS is a good transport operation that easily earns its cost of capital, generates significant free cash, has a wide economic moat, has a strong financial profile and pays an attractive dividend—now yielding 4.8%. More recently, the stock has been weak because profits came in weaker than expected. UPS' customers traded down to the lower yielding ground segment, which negatively impacted overall pricing and margins. These shifts are common and occur in both directions, but what is important, in our view, is the long-term trend of volume growth remains intact. Nevertheless, investors have lost patience with UPS after a string of earnings disappointments.

With regard to sales, we exited Northrop Grumman, an aerospace and defense technology company, as its valuation appeared full. We had sold the bulk of our position two years ago at similar prices.

Perspective

What are typically referred to as bull and bear markets, we prefer to call risk-seeking and risk-fearing markets. Today, we are in more of a risk-seeking environment. It's not quite 2021 when meme stocks were all the rage, but complacency seems to have crept back in. Due to our conservatism around balance sheet strength, business quality and asking prices, this can be a tougher environment for our process, both in terms of finding absolute values as well as investors chasing momentum. Our approach can be viewed as anti-momentum as we are buying what others are selling and we are selling what others are buying. However, our process does not change based on where we are in the market cycle. That is, we do not adjust our margin of safety criteria based on what the market is doing.

Our focus has been on finding good businesses that are out of favor for one reason or another. This is no different from what we've done in recent years. In 2020, during the pandemic, we were buying travel and leisure names that had cratered as people were stuck at home. In 2022, we bought communication services and media stocks that had been pressured by rising interest rates. In 2023, we bought banks when the sector sold off on the collapse of Silicon Valley bank. Over the past year, we've added select consumer staples holdings, like Kerry, which were impacted by growth disappointments and GLP-1 weight-loss drug fears. Near-term concerns can create volatility, which provides opportunities to invest. In short, our investment process requires a long-term time horizon. It would be unrealistic to think that all of our stocks will make consistent gains month after month, quarter after quarter. We believe that having the patience to endure the potential short-term ups and downs a stock or a company may go through will pay off in the long run.

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Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging and less developed markets, including frontier markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Value securities may underperform other asset types during a given period.

Russell 1000® Value Index measures the performance of US large-cap companies with lower price/book ratios and forecasted growth values. Russell 1000® Index measures the performance of roughly 1,000 US large-cap companies. Russell 1000® Growth Index measures the performance of US large-cap companies with higher price/book ratios and forecasted growth values. The index(es) are unmanaged; include net reinvested dividends; do not reflect fees or expenses; and are not available for direct investment.

This summary represents the views of the portfolio managers as of 30 Sep 2024. Those views may change, and the Fund disclaims any obligation to advise investors of such changes. For the purpose of determining the Fund's holdings, securities of the same issuer are aggregated to determine the weight in the Fund. The holdings mentioned above comprised the following percentages of the Fund's total net assets as of 30 Sep 2024: Dollar General Corp 1.1%, Humana Inc 2.4%, Samsung Electronics Co Ltd 1.3%, PayPal Holdings Inc 3.3%, The PNC Financial Services Group Inc 2.3%, Kerry Group PLC 3.3%, United Parcel Service Inc 3.1%. Securities named in the Commentary, but not listed here are not held in the Fund as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities. All information in this report, unless otherwise indicated, includes all classes of shares (except performance and expense ratio information) and is as of the date shown in the upper right hand corner. This material does not constitute investment advice.

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Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. **Price-to-Earnings (P/E) Ratio** measures how expensive a stock is. Earnings figures used for FY1 and FY2 are estimates for the current and next unreported fiscal years. **Margin of Safety**, a concept developed by Benjamin Graham, is the difference between the market price and the estimated intrinsic value of a business. A large margin of safety may help guard against permanent capital loss and improve the probability of capital appreciation. Margin of safety does not prevent market loss—all investments contain risk and may lose value. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each outstanding share of common stock. **Normalized Earnings** are earnings that are adjusted for the cyclical ups and downs over a business cycle.

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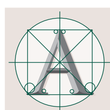
A R T I S A N  P A R T N E R S